

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

MAR 24 2003

PUBLIC SERVICE
COMMISSION

JACKSON ENERGY COOPERATIVE
CORPORATION

CASE NO.

2002-00119

ALLEGED FAILURE TO COMPLY WITH
KRS 278.300(1)

SETTLEMENT AGREEMENT

This Settlement Agreement is made and entered into on this 24th day of March, 2003, between JACKSON ENERGY COOPERATIVE CORPORATION ("Jackson Energy"), FRED CALLAHAN, FRED M. BROWN, EDWARD G. STAMPER, KEITH BINDER, DALE MADDEN, STEVE PATTON, JR., AND DONALD THOMPSON ("Named Directors") and the STAFF OF THE PUBLIC SERVICE COMMISSION ("Commission Staff").

WITNESSETH:

WHEREAS, on April 29, 2002, the Public Service Commission ("Commission") entered a show cause Order in Case No. 2002-00119 against Jackson Energy in which it stated that it had sufficient evidence to believe that Jackson Energy had failed to comply with KRS 278.300(1), which states that no utility shall issue evidences of indebtedness or assume any obligations or indebtedness of any other person until it has received approval to do so from the Commission; and

WHEREAS, on April 29, 2002, the Commission entered a show cause Order in Case No. 2002-00119 against the Named Directors in which it stated that it had sufficient evidence to believe that they had aided and abetted Jackson Energy in its failure to comply with KRS 278.300(1); and

WHEREAS, the Commission ordered Jackson Energy and the Named Directors to show cause why they should not be subject to the penalties of KRS 278.990(1) for the alleged violation; and

WHEREAS, on May 17, 2002, Jackson Energy and the Named Directors, by counsel, filed a response to the Commission's Order of April 29, 2002 in which they asserted that they did not willfully fail to comply with KRS 278.300(1) and that any failure to comply was due to oversight; and

WHEREAS, on May 30, 2002, Jackson Energy and the Named Directors, through counsel, met at an informal conference at the Commission's offices; and

WHEREAS, Jackson Energy, the Named Directors, and Commission Staff desire to settle the issues raised by this proceeding and have entered into this Settlement Agreement through compromise;

NOW, THEREFORE, Jackson Energy, the Named Directors, and Commission Staff agree that:

1. Jackson Energy is a Kentucky cooperative corporation engaged in the distribution of electricity to the public for compensation for lights, heat, power, and other uses, and is a utility subject to Commission jurisdiction pursuant to KRS 278.010 and KRS 279.210.

2. Jackson Energy and the Named Directors have a duty to comply with the provisions of Chapter 278 of the Kentucky Revised Statutes and Commission regulations promulgated thereunder.

3. In lieu of any penalty that the Commission might assess against Jackson Energy for the violations cited, Jackson Energy shall:

(a) Include in each of its annual reports to its members a full disclosure of all subsidiary activity of Jackson Energy.

(b) The disclosure shall include the name of each subsidiary of Jackson Energy, a description of each subsidiary's activities, and the impact that each subsidiary has had on Jackson Energy's books for that year.

(c) File with the Commission each year, as an addendum to its annual report, the name of each subsidiary of Jackson Energy, a description of each subsidiary's activities, the impact that each subsidiary has had on Jackson Energy's books for that year, and financial statements on each subsidiary.

4. The Named Directors shall each be assessed a civil penalty in the amount of \$100 for the violation cited herein. The penalty against each director shall be suspended on the following conditions:

(a) The Named Directors shall prepare and develop, or cause to be prepared and developed, a training seminar, with hand-outs, covering the provisions of KRS Chapter 278 and 279 and the provisions of the administrative regulations contained in Chapter 807 that are applicable to rural electric cooperatives, to be held no later than 6 months from the date of the Commission's Order approving this Settlement Agreement.

(b) An outline of the training seminar and a copy of all documents the Named Directors plan to disseminate at the seminar shall be submitted to Commission Staff for prior review and approval.

(c) All current Directors of Jackson Energy, each of the Named Directors and the President and CEO shall be required to attend the seminar.

(d) Evidence of attendance at the seminar of those individuals identified in 4(c) shall be filed with the Commission within 10 days of the date of the seminar.

5. If the Commission finds the evidence of attendance sufficient, it shall enter an Order dismissing the case and voiding the suspended penalty of \$100 against each Named Director.

6. Nothing contained herein shall be construed as an admission of a willful violation of any statute or administrative regulation, nor shall the Commission's acceptance of this agreement be construed as a finding of a willful violation of any statute or administrative regulation.

7. This Settlement Agreement is subject to the acceptance of and approval by the Commission.

8. Commission Staff shall recommend to the Commission that this Settlement Agreement be accepted and approved.

9. If the Commission fails to accept and approve the Settlement Agreement in its entirety, this proceeding shall go forward and neither the terms of this Settlement Agreement nor any matters raised during settlement negotiations shall be binding on any of the signatories.

10. If the Commission accepts and adopts this Settlement Agreement in its entirety and enters an Order in this proceeding to that effect, neither Jackson Energy nor the Named Directors shall apply for a rehearing in this matter, nor bring legal action for judicial review of the Order.

IN WITNESS WHEREOF, Jackson Energy, the Named Directors and Commission Staff have executed this Settlement Agreement the day and year first above written.

JACKSON ENERGY COOPERATIVE
CORPORATION

BY: Donald R. Schafer

TITLE: PRESIDENT & CEO

Fred Callahan

FRED CALLAHAN

Fred M. Brown

FRED M. BROWN

Edward G. Stamper

EDWARD G. STAMPER

Kathy Binder

KATHY BINDER

Dale Madden

DALE MADDEN

Steve Patton

STEVE PATTON, JR.

Donald Thompson

DONALD THOMPSON

STAFF OF THE PUBLIC SERVICE
COMMISSION

BY: Christa L. Mitchell

TITLE: Staff Attorney